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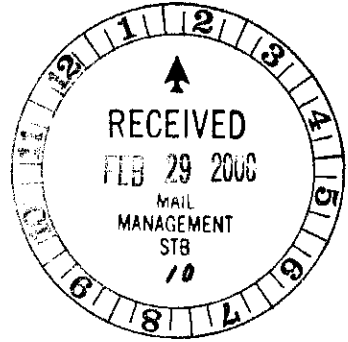
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### Public Views on Major Rail Consolidations

Statement of:

Erie County Industrial Development Agency, Niagara County and the City  
of Buffalo

My name is Dr. Ronald W. Coan, I am the Executive Director of the  
Erie County Industrial Development Agency with offices at 275 Oak Street,  
Buffalo, NY.

I represent the interests of the Counties of Erie, Niagara and the City  
of Buffalo. The Erie/ Niagara region has historically been a major rail  
center dating back to the middle 1800's and early 1900's. In fact much of  
our region's economic heritage can be traced to the role early railroads  
played in forming the region's infrastructure and industrial base.

Railroad mergers, bankruptcies and transformations have always  
been, and still are strongly linked with the region's economic performance.  
The question before the board today is concerns the impact rail mergers have  
on the transportation network, in particular our regional rail shippers. A  
close review of the history of the Erie/Niagara region clearly proves that rail

mergers and transformations have had major impacts on the transportation network and the economy of the region.

The 1973 Regional Rail Reorganization Act, which formed Conrail from the six bankrupt railroads then serving the Northeast, proved to have major economic and transportation impacts on the region. We are still living with the legacy of having the region become a single (Conrail) railroad town. As a consequence of this monopoly local switching fees of up to \$450 per car, (three times the national average) forced local industries to move production operations from the region. Rail transportation was a cost where they could not be competitive and are a glaring reminder of the power of rail mergers.

The railroads themselves seem to reinforce the theory that mergers can have broad impacts on regional economies by touting in 1997 - 99 that the CSX/NS acquisition of Conrail would increase competition and enhance rail service in the Northeast. While the final results of that merger have yet to be determined, it is safe to say that the merger has already had serious impacts some positive and many negative in the Erie/Niagara Region and the Northeast as a whole. The bottom line is that one cannot drastically increase the cost or hinder the logistical efficiencies of an international transportation infrastructure without major consequences to local and regional economies.

We are faced with a dilemma. The current trend in the railroad industry is to merge and consolidate railroads thereby creating large transportation networks spanning the North American continent. The Erie/Niagara region is a major rail center in the Northeast (our estimates put locally generated rail revenues for all class 1 carriers in the region at over \$650 million annually) with the core of its economic manufacturing base dominated by rail dependent industries such as, chemical, grain processors, coal utilities and automotive parts suppliers. Regional estimates indicate that over 25,000 workers are employed directly by rail dependent industries. Without a new focus on free market competition for future mergers we will undoubtedly continue this tradition of serious and potentially disruptive consequences.

The region's dependence on rail service and competitive rates is exacerbated by the absence of any true market rail competition. The majority of our shippers are captive to one railroad or are subject to high reciprocal switch charges which limit their ability to ship products in a competitive environment. The chemical industry in Niagara County still labors under high reciprocal switch charges of up to \$450 per car, and much of their production can only be transported by rail. The region has lost production lines at the General Mills Cereal plant in Buffalo and the sale of

“Big 3” automotive parts manufacturers to independent ownership means our regional plants will have to be cost competitive on a national and global level.

These factors make a thorough and broad examination of any potential rail mergers a necessity. The STB should expand the criteria by which they judge rail mergers to include both positive and negative impacts on shippers. In our view the highest priority should be placed on mergers which enhance competition on a regional and multinational level and in those instances where a merger could have anti-competitive regional impacts the STB should use its broad powers to minimize or mitigate those impacts.

The likelihood that the rail industry will be transformed into large coast to coast multinational railroads appears to be considerable. The very nature of larger multinational corporations concentrates an enormous amount of power and wealth into a few competing entities. While this massive concentration of resources can have very positive impacts, and significant cost savings the danger that without direct head to head competition our history suggests it would be prudent to require the STB to undertake a careful review of any merger. The STB must put in place a strong framework to move the industry towards true market competition.

As a part of the discussion of any future rail consolidations the STB needs to look to their own internal processes and in particular, endeavor to open up the merger process. As an economic development professional I seek to understand and explain to others what impacts rail operations and mergers have on our local economy. Yet the process does not allow for the disclosure of the data on which these judgments need to be made.

A process must be established where the parties can be assured of some level of proprietary protection, yet ensure that public discourse and evaluation is meaningful and based on relevant data. To hold a public discussion without some real disclosure simply leads to a one-sided discussion. The current process discriminates against smaller regions and shippers. In order to have any meaningful participation in the process you must hire a special consultant to look at the data, this consultant cannot disclose to you the key findings of his research, you then hire an attorney to argue a case and present data which you as the client are forbidden to see.

Future mergers should as with other mergers in the past be allowed to progress and be judged on their merits. The pressures of other railroads should not influence the STB, when asked to review future rail mergers, such as the CN-BNSF proposal. The STB should require a broad review which includes an economic impact analysis.

It is critically important for the Erie/Niagara region that future rail mergers create a stable and competitive rail environment. Our efforts to promote economic growth and revitalization of our region require increased rail competition to offset the high switching rates and low quality service which severely diminish the region's ability to attract and maintain industry.

For these reasons, the Erie County Industrial Development Agency and the County of Niagara and the City of Buffalo, strongly urge the STB to gather and evaluate all facts surrounding this and any future rail mergers and use as a benchmark for approval, the level of market competition such mergers create or hinder.

We appreciate the opportunity to address the Board.